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STATE FOR OES/, EB/IFD/OIA, EAP/PMBS
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USDOC FOR 4430 ITA/MAC/ASIA & PAC/KOREA & SE AIS/ASEAN
TREASURY FOR OASIASENSITIVE

E.O. 12958: N/A

TAGS: [ECON](#) [ENGR](#) [ECON](#) [ECIN](#) [RP](#) [CN](#) [XE](#) [XD](#)

SUBJECT: Philippine Renewable Energy Law a Regional Model

REF: 08 Manila 2731

11. (SBU) Summary: Positioning to be a world leader in renewable energy, the Philippine has passed a new renewable energy law that improves the policy environment with fiscal and non-fiscal incentives to facilitate and expand investments in the sector. A recent USG visitor suggested the Philippine law could be a model for the region and a possible centerpiece for a 2010 U.S.-ASEAN dialogue on renewable energy. End Summary.

Plans for U.S.-ASEAN Dialogue on Renewable Energy

12. (U) Office of Commercial & Business Affairs Senior Advisor Jonathan Thompson met with various Philippine renewable energy stakeholders on July 30-31 to discuss a proposed U.S.-ASEAN dialogue on renewable energy to be held in an ASEAN country in the first quarter of 2010. The meetings also highlighted how the Philippine Renewable Energy Act of 2008, described as among the first such laws in Southeast Asia, has created significant opportunity for further investment in the sector. The legislation was signed into law in December 2008 and the implementing rules and regulations released in early June 2009. After listening to stakeholders describe how the new renewable energy law will create new investment opportunities, Senior Advisor Thompson suggested that it might serve as a model for the region, and perhaps could be a centerpiece of the U.S.-ASEAN Renewable Energy Dialogue.

13. (SBU) Asia Development Bank officials noted to Senior Advisor Thompson that there were numerous renewable energy conferences being held in the region, almost on a weekly basis. They suggested that the best way to make a U.S.-ASEAN dialogue on renewable energy attractive to potential participants would be to highlight some of the cutting edge American technology in renewable energy, such as projects involving biologically engineered algae.

Significance of the Philippine Law

14. (U) The new Philippine legislation is significant because it attempts to accelerate the development and utilization of renewable energy to address the issues of energy self-sufficiency and sustainability. The renewable energy law provides fiscal and non-fiscal incentives, and creates market conditions that could allow the private sector to move renewable energy financing and technologies towards the full development of the sector. It also provides policies that create a market for renewable energy and

ensure a fair rate of return for investors.

¶5. (U) Under the law, foreign investments are allowed in renewable energy projects subject to the conditions provided in the Philippine Constitution. For most projects, this means that foreign ownership cannot exceed 40 percent. However, geothermal projects, which are considered a type of mining, can be 100 percent foreign-owned. Within a few days of the release of the implementing rules and regulations, the Philippine Department of Energy received 117 letters of intent from companies interested in investing in renewable energy projects. Some of these projects could get underway in the fourth quarter of 2009.

The Philippines as a Renewable Energy Leader

¶6. (U) Renewable energy currently accounts for over 42 percent of the Philippine energy mix, one of the highest ratios in the world. Geothermal alone supplies 23 percent of the Philippine primary energy mix and 18 percent of electrical power requirements. The U.S. company Chevron remains a leader in Philippine geothermal power production. U.S.-based SunPower has a solar silicon wafer manufacturing facility in the Philippines to serve export markets. Although a recognized leader in renewable energy development, the Philippine renewable energy capacities have not grown significantly during recent years due to technical, financial, and market constraints. The new renewable energy law seeks to loosen these strictures and set the stage for fuller development and utilization of its vast renewable energy potential, estimated at more than 200,000 MW.

Challenges Ahead

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¶7. (SBU) While the implementing rules and regulations were released in early June, some mechanisms necessary for full implementation of the law are still under discussion; such as portfolio standards, tariffs, market arrangements, and tax incentive guidelines. The renewable energy law complements the Electric Power Industry Reform Act of 2001 in power sector reform. However, potential foreign investors still have concerns about the impact of the Constitutionally-mandated 40 percent foreign ownership limitation on renewable energy projects, and urge the Philippine government to remove this restriction to enlist their full support in renewable energy development.

Comment

¶8. (SBU) Sometimes a single piece of legislation can make a significant difference in an investment landscape, such as the legislation that allowed foreign investment in telecom value-added services and paved the way for the call center industry in the Philippines. Some industry observers are hoping that the new Renewable Energy Act will have a similar impact in attracting new investment into Philippine renewable energy projects and serve as a model for the region.

Kenney